Ms. Marlene H. Dortch, Secretary
May 3, 2007
Ex Parte – 96-45
Attachment 4

Nebraska Universal Service Fund

The Nebraska fund is $60 million dollars

Summary Description of the Nebraska Universal Service Fund High Cost Program
May, 2007

Following authorization by the Nebraska Legislature in 1997, the Nebraska Public Service Commission adopted in 1999 a policy to rebalance intrastate access and local service rates, eliminating implicit subsidies and thereby facilitating competition among local service providers, and simultaneously established the Nebraska Universal Service Fund (NUSF) to compensate carriers for revenue losses due to the substantial reductions in cost-based access rates required by the Commission's policy. From 1999 through 2004, NUSF support provided to each eligible carrier was the projected net revenue loss as a result of reducing its state access rates while also raising its local service rates to uniform benchmark rates – i.e., $17.50 per month for residential service; $27.50 per month for business service. Several carriers were awarded additional NUSF support as compensation for plant investments made after the high cost program was underway and access rate reductions had already taken effect. This rate-rebalancing, revenue-neutral high cost support mechanism was intended to be an interim program, and in 2001 the Commission opened a formal proceeding to develop a permanent distribution methodology.

The design of the new, permanent "Support Allocation Methodology" (SAM) was completed in 2004 and implemented in January, 2005. Under the SAM, each carrier's annual NUSF support is determined through a multi-step process and depends on several factors – including, for example, household density in its out-of-town service areas, its per-line access revenue, its earnings on net investment during a prior year, and its level of NUSF support at the end of the interim program.

At the heart of the SAM are mathematical models of the costs and revenues attributable to the local loop. Each carrier's loop cost is modeled separately for the in-town and out-of-town portions of each of its exchanges, according to an exponential function of household density that approximates the relationship between loop cost and household density indicated by the Benchmark Cost Proxy Model (BCPM). At the low end, modeled loop costs for Nebraska's highest density areas (i.e. cities and towns) range from under a $1 per month to about $20 per month. Modeled loop costs for out-of-town areas average over $200 per month and exceed $500 per month in Nebraska's ranch country, where a single household is found every three to five square miles, on average. Modeled loop revenue includes contributions from the uniform local service rate benchmark (recently increased to $17.95), the federal Subscriber Line Charge, per-line intrastate access revenue and Digital Subscriber Line service. Modeled revenue ranges from $25 per month for Nebraska's two non-rural carriers with very low state access rates to $75 per month for one rural carrier with less than 600 access lines. Modeled monthly revenue for most of Nebraska's rural carriers is between $30 and $45.

Baseline NUSF support amounts are determined by allocating a fixed Fund Size that is equal to the support all carriers had received under the revenue-neutral interim program; allocations are made in proportion to the amount by which each carrier's modeled loop cost exceeds its modeled loop revenue.

The baseline NUSF support amounts determined by the cost and revenue modeling are subject to an earnings cap, may be augmented by one or more "Transitional Mechanisms," and are reduced by a recently introduced "Rural Benchmark" adjustment mechanism. The earnings cap insures that no carrier receives NUSF support that would cause its return on net plant investment to exceed 12%. The Transitional Mechanisms serve to moderate the impact of reduced NUSF support calculated according to the SAM as compared with the 1999-2004 interim program, by providing NUSF support over the SAM-calculated amounts to carriers that would otherwise experience severe reductions in support. The Rural Benchmark adjustment reflects the Commission's policy determination that a $2 per month difference between urban and rural local service rates is consistent with the statutory goal of "reasonably comparable" rates in urban and rural areas.

Recognizing that the purpose of high cost universal service support is not to artificially create competition in markets in which it is economically unsustainable, the Commission has adopted a rebuttable presumption that funding should support a single network, and NUSF support to competitive carriers should be limited to those that lease UNE loops from non-rural incumbents at cost-based prices. Nevertheless, the Commission has articulated a procedure by which facilities-based competitors can challenge this presumption by demonstrating how the public interest would be served by supporting more than one network in a given area.

NUSF-eligible carriers include two non-rural carriers that together serve about 70% of Nebraska's access lines, nearly forty rural companies, most of which serve a few hundred to a few thousand lines each, and a small number of competitive carriers that lease UNE loops from the non-rural carriers.

Annual NUSF high cost funding rose to $71 million in 2004 and has declined under the permanent methodology to approximately $62 million in 2007.

All NUSF programs, high cost, Nebraska Telephone Assistance Program, for low income consumers and the Tele-Health Program for rural health facilities, are funded through a 6.95% surcharge on all intrastate telecommunications revenues earned by Nebraska telecommunications service providers.